

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 92-094-C - ORDER NO. 92-889
OCTOBER 16, 1992

IN RE: Proceeding to Examine the Effects)
 of and to Consider Changes to the)
 Carrier Common Line (CCLC) Capping)
 Plan.)

ORDER

I.

INTRODUCTION

On December 30, 1991, the Public Service Commission of South Carolina (the Commission) issued Order No. 91-1155, in Docket No. 88-472-C, in response to a Petition for Clarification filed on behalf of AT&T Communications of the Southern States, Inc. (AT&T). Order No. 91-1155 granted clarification and initiated a new proceeding. In that Order, the Commission determined that a new proceeding and docket should be opened "to consider the effects of the CCLC Capping Plan on the LEC's, the IXC's and the end-users, as well as any changes that any parties would propose to the existing Capping Plan." The proceeding and hearing were duly noticed and all LEC's and IXC's were made parties of record to the proceeding.

Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate), and South Carolina Budget and Control Board, Division of Information Resource Management (DIRM) intervened in the proceeding.

On June 10, 1992, at 10:30 a.m., a hearing commenced in the Commission's Hearing Room, the Honorable Marjorie Amos-Frazier, presiding. AT&T was represented by Francis P. Mood, Esquire, and Roger A. Briney, Esquire; MCI Telecommunications Corporation (MCI) was represented by D. Christian Goodall, Esquire, and Martha P. McMillin, Esquire; Sprint Communications Company, LP (Sprint) was represented by Arthur G. Fusco, Esquire, and Chanthina R. Bryant, Esquire; South Carolina Telephone Coalition (SCTC or the Coalition)¹ was represented by M. John Bowen, Jr., Esquire; GTE South, Inc. and Contel of South Carolina, Inc. d/b/a GTE South Carolina (GTE South and Contel) were represented by M. John Bowen, Jr., Esquire, and Joe W. Foster, Esquire; United Telephone Company of the Carolinas (United) was represented by William F. Austin, Esquire, and James B. Wright, Esquire; Southern Bell Telephone & Telegraph Company (Southern Bell) was represented by Harry M. Lightsey, III, Esquire, and Caroline N. Watson, Esquire; the Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire; DIRM was represented by Craig K. Davis, Esquire; and the Commission

1. Members of the Coalition are: ALLTEL-South Carolina, Inc., Bluffton Telephone Company, Chesnee Telephone Company, Chester Telephone Company, Farmers Telephone Cooperative, Inc., Fort Mill Telephone Company, Hargray Telephone Company, Heath Springs Telephone Company, Home Telephone Company, Horry Telephone Cooperative, Inc., Lancaster Telephone Company, Lockhart Telephone Company, McClellanville Telephone Company, Norway Telephone Company, Palmetto Rural Telephone Cooperative, Inc., Piedmont Rural Telephone Cooperative, Inc., Pond Branch Telephone Company, Ridge Telephone Company, Ridgeway Telephone Company, Inc., Rock Hill Telephone Company, Sandhill Telephone Cooperative, Inc., St. Stephen Telephone Company, West Carolina Rural Telephone Cooperative, Inc., and Williston Telephone Company.

Staff was represented by Marsha A. Ward, General Counsel.

The parties presented the following testimony: AT&T presented the testimony of Wayne A. King; MCI presented the testimony of Don J. Wood; Sprint presented the testimony of Tony Key; SCTC presented the testimony of Bruce Schoonover; GTE South and Contel presented the testimony of Rodney E. Aldridge; United presented the testimony of Michael R. Hunsucker; Southern Bell presented the testimony of Jerry D. Hendrix; and the Consumer Advocate presented the testimony of Allen G. Buckalew.

II.

POSITION OF THE INTEREXCHANGE CARRIERS

AT&T

AT&T's witness King recommended that the existing Capping Plan be replaced with one or more new plans designed to achieve parity with interstate CCL rates. Mr. King testified that while the present Capping Plan is beneficial, it does not go far enough. The present Capping Plan benefits present end-users in the form of lower toll prices because access expenses were reduced to the interexchange carriers by the Capping Plan. It is AT&T's position that the Commission should adopt and announce as its overall access objective, a policy of bringing intrastate access charges to levels which are no higher than interstate rates within three years. According to AT&T, if the Commission announced this policy objective and then ordered the capped amount of originating and terminating CCL revenues to be gradually reduced to interstate levels, the disparity problem would eventually disappear entirely

from the CCL rate element.

Witness King's recommendation would replace the existing Capping Plan. Mr. King then set forth several possible means whereby the South Carolina LECs might achieve interstate parity on their CCL rates. Among those means suggested was a "modest" end-user charge, a "modest" local rate increase, an increase in optional service rates, or, the LECs may be able to achieve parity without an increase in any other rates.

Mr. King suggested that if the Commission does not choose to implement AT&T's recommendation to achieve interstate CCL parity within three years, then as an alternative, the Commission should cap terminating CCL revenues, modify the present method of handling refunds of excess revenues by having the LECs instead adjust their following year's capped revenue amount by the full amount of any over-recovery or under-recovery, and all LEC's should be required to use a standard form to calculate their new annual CCL rates. Additionally, Mr. King stated to the Commission that it is in the best interest of South Carolina citizens and AT&T would recommend the approval of the Settlement Agreement and Stipulation entered into between AT&T, the other interexchange carrier parties to this proceeding and 24 of the 28 local exchange companies in South Carolina. Mr. King also stated that the proposal of GTE South and Contel would accomplish the goal of lower access rates articulated by Mr. King earlier.

MCI

MCI's witness, Don Wood, testified that the existing CCLC Capping Plan should be modified to include both originating and terminating access. The CCLC for non-premium access should also be included in the plan. Mr. Wood also suggested that the provision allowing the LECs to share on a 50-50 basis in overpayments, should be eliminated and replaced with a mechanism that reduces rates on a going-forward basis by the full amount of over-recovery. Additionally, Mr. Wood recommended that the Staff should develop a standard calculation process to be followed by all LECs when calculating the amount of over-payment and subsequent rate changes. Finally, Mr. Wood proposed that the Commission consider the CCLC Capping Plan in the context of a broader strategy to reduce intrastate access charges to interstate levels.

Sprint

Sprint's witness, Tony Key, made the following recommendations to the Commission: 1) The Commission should develop a strategy to move intrastate access charges toward interstate levels within a specified period of time; 2) The Commission should order Southern Bell to stop the discriminatory pricing of the terminating carrier common line charge. According to Mr. Key, Southern Bell has priced the terminating CCLC rates for Feature Group B service at a higher level than Feature Group C or D without any cost justification; and 3) Sprint would support the establishment of a task force to negotiate a plan to lower intrastate access rates to interstate levels.

III.

POSITION OF THE LOCAL EXCHANGE COMPANIES

South Carolina Telephone Coalition

The South Carolina Telephone Coalition presented the testimony of Bruce Schoonover in support of the position of the 24 member local exchange companies. Mr. Schoonover set forth the position of the Coalition to include the submission for the record of a Settlement Agreement and Stipulation which was admitted into evidence as Hearing Exhibit No. 3. It was Mr. Schoonover's testimony that the Settlement Agreement and Stipulation resolved several issues between the parties, is in the best interest of all concerned and should be approved and adopted by the Commission for those companies. The Stipulation sets forth the basis upon which the SCTC members would charge all interexchange carriers for the interLATA services that the members offer to the interexchange carriers. The Stipulation establishes this relationship for a period of four years. The Coalition members believe that the plan is in the public interest, is administratively efficient, establishes a stable, predictable environment, and moderates the charges to the IXC's in a manner that is generally consistent with how costs are caused. It is not the intent of the Stipulation to impose the requirements on any other LEC other than those members of the Coalition participating in the agreement.

According to Mr. Schoonover, the rates would be set at a revenue neutral basis so that there would be no upward or downward pressure on local rates or any other services. Over the duration

of the plan, as a result of the difference between the growth in access minutes and the growth in access lines, charges to the IXCs would tend to be reduced. According to Mr. Schoonover, the plan allows the LECs to recover their costs more in line with how their costs are being incurred.

GTE South, Inc. and Contel of South
Carolina, Inc. d/b/a GTE South Carolina

GTE South and Contel presented the testimony of Rodney E. Aldridge in support of their proposal. Mr. Aldridge proposed a plan that will be revenue neutral at 1991 intrastate interLATA access revenues. This includes intrastate traffic-sensitive, interLATA billing and collection, non-traffic sensitive, and any miscellaneous revenues resulting from intrastate interLATA access related charges. For the purposes of calculating total intrastate interLATA access revenues, the originating CCL revenue will be frozen at the 1988 level as established in Docket No. 88-472-C, Order No. 89-281. Intrastate traffic sensitive and any miscellaneous charges (i.e. NRC's, additional labor charges, etc.) will mirror the interstate rates that are in effect at the time of a Commission Order. Billing and collection rates will be the rates currently approved by the Commission. Once these revenue streams are determined, they will be subtracted from the total 1991 interLATA access revenues determined previously. Any residual revenue will be added to or subtracted from NTS revenue and this will be used to determine new CCL rates.

GTE South and Contel proposed that CCL rates be charged on a

per access line basis. The NTS revenue would be divided by total access lines in service during 1991. Revenue growth would be tied to access lines instead of minutes of use. Additionally, once the per access line rate is established, there would be no further need for true-ups since NTS revenues would not grow faster than access lines. Mr. Aldridge further testified that each month, GTE South and Contel would multiply the number of access lines times the per line rate. This amount would be charged to the individual IXC based on its MOU distribution.

Mr. Aldridge added that a per line NTS recovery charge will only begin to address the problem of high intrastate interLATA access rates. In order to substantially lower access charges, NTS costs need to be shifted from the intrastate interLATA jurisdiction. Future shifts that may occur should be made up by rate rebalancing on a going forward basis. It was Mr. Aldridge's testimony that the purpose of a per-line charge in his proposed Capping Plan is simply to reflect the growth in access charges over time and has nothing to do with applying per-line charges to any customer. Mr. Aldridge further stated that if interstate traffic sensitive and miscellaneous charges were to change over time, GTE South's and Contel's intrastate traffic sensitive and other miscellaneous charges would also change over time in order to maintain parity. Mr. Aldridge stated that if interstate rates that may be subsequently filed are higher than current intrastate rates, intrastate traffic sensitive and other miscellaneous rates would be increased on a mirrored basis. While that would produce

additional revenues for GTE South and Contel, Mr. Aldridge agreed that the carrier common line charge would be reduced by an equivalent amount in those circumstances. Correspondingly, if interstate rates were lowered, GTE South and Contel would reduce intrastate traffic sensitive and miscellaneous charges to mirror those rates. That would have a negative effect on GTE South's and Contel's revenues, but Mr. Aldridge testified that that would not necessarily mean that the carrier common line charge would be increased.

United Telephone Company of the Carolinas

United presented the testimony of Michael R. Hunsucker in support of its proposal. Mr. Hunsucker testified that the current CCLC Capping Plan has been effective in reducing originating carrier common line charge rates. In fact, United's premium originating CCLC rates have been reduced by almost 29% since the inception of the CCLC Capping Plan. However, Mr. Hunsucker stated that the current CCLC Capping Plan has not been as effective in dramatically reducing overall access rates. Mr. Hunsucker stated that United is very concerned about the current level of intrastate access charges in South Carolina and presented a proposal to address the issues that United is very concerned about: arbitrage and services by-pass. Mr. Hunsucker's proposal would be for the Commission to adopt an objective that intrastate access services should be priced in parity with interstate access services. United proposes that a "base" intrastate access rates be established that mirror the interstate rate levels. Once the "base" intrastate

access rates have been established, a "revenue residual" can be calculated to determine the impact of mirroring the interstate access rates. This "revenue residual" would be used to establish a CCLC surcharge to be billed to users of LEC intrastate access services. Additionally, United proposed that the Commission should establish an industry task force comprised of LECs and IXC's to analyze and develop a plan to reduce the "revenue residual" over time. United suggested that the Commission identify specific goals and objectives to be addressed and achieved by the plan, including the preservation of universal service and economic development in South Carolina. The "revenue residual" would not be charged to local exchange customers, but would be charged to IXC's on a per-minute of use basis, and the task force would look at attempting to reduce that revenue residual over time.

Southern Bell Telephone & Telegraph Company

Southern Bell presented the testimony of Jerry D. Hendrix in support of its position. Mr. Hendrix stated that the originating Carrier Common Line Cap Plan should be eliminated and that lower switched access rates could be better accomplished through incentive sharing and/or a rate rebalancing plan. It was also Mr. Hendrix's position that to leave the existing originating Carrier Common Line Capping Plan in place with the already approved incentive sharing plan would in essence mean "double capping."

Under Mr. Hendrix's proposal, switched access reductions would take place under an incentive regulation/earning sharing scenario when the Company's earned rate of return is between 14% and 16.5%.

Within that range, Southern Bell would share the earnings on a 50-50 basis with its ratepayers. It was Mr. Hendrix's testimony that the ratepayers' portion of the shared earnings could be used to reduce switched access rates. With rate rebalancing, switched access reductions would be offset through appropriate rate adjustments and other services. Using the earnings sharing approach and/or rate rebalancing, it is Southern Bell's position that it is not opposed to reducing switched access rates. Switched access reductions as a result of an earnings sharing and/or rate rebalancing could take place even if the minutes of use do not grow under the current capping plan. It was also Southern Bell's position that for the same reasons that the the originating cap should be eliminated, the Commission should not institute a terminating cap plan.

IV.

POSITION OF THE CONSUMER ADVOCATE

The Consumer Advocate presented the testimony of Allen G. Buckalew in support of its position. Mr. Buckalew proposed that the Commission should order parity with the 25% interstate assignment, but collect the costs through carrier charges on a non-usage sensitive basis. Mr. Buckalew recommended that the capping of any access rates should be eliminated, and if costs increase, then the carrier should pay an increased cost for use of the telephone system.

V.

FINDINGS OF THE COMMISSION

Based upon the testimony and evidence of the record, the Commission makes the following findings of fact:

1. The Commission established this proceeding to consider the effects of the CCLC Capping Plan on the LECs, the IXCs and the end-users. The Commission also considered changes that any parties proposed to the existing Capping Plan. At the onset, it is important for the Commission to enunciate its policy regarding intrastate access charges. While the interexchange carriers and even some LECs propose that the Commission should have a policy to mirror interstate access rates within a specified period of time, the Commission is concerned about the impact of this policy on local exchange companies' local basic service rates. However, the Commission is also concerned about potential bypass and the need to have South Carolina compete with other jurisdictions for business and other opportunities for economic growth and to have the State be on a competitive basis for economic development purposes. Therefore, the Commission's policy is one that encourages the LECs to bring intrastate access charges to levels competitive with other jurisdictions, while assuring that local basic service rates are not jeopardized in the process.

2. The 24 members of the South Carolina Telephone Coalition and the facility-based interexchange carriers of AT&T, MCI and Sprint agreed to a plan which was filed as a Stipulation concerning intrastate access charges. This was presented as Hearing Exhibit

No. 3 in the proceeding. The agreement and terms and conditions described the procedures to establish access charge rates for intrastate interLATA services in South Carolina to be charged to all interexchange carriers by the participating members of the South Carolina Telephone Coalition. The Commission finds that the South Carolina intrastate/interLATA Settlement Agreement and Stipulation is in the public interest, is consistent with the Commission's above-stated policy, and should be approved for a period of at least four years as provided in the Settlement Agreement and Stipulation.

3. The Commission has considered the proposal of GTE South and Contel. The Commission finds that the proposal of the two companies is also consistent with the Commission's above-stated policy of lowering intrastate access to discourage bypass and to encourage economic development. It is the Commission's opinion that this methodology will continue to lower access levels to those competitive to other jurisdictions and that the measure of growth using access lines instead of MOU's is an appropriate methodology to use in this instance.

4. The Commission has considered the proposal of United and finds that that proposal should also be approved with one exception. United's proposal would create an industry task force to be formed to analyze and develop a plan to reduce the "revenue residual" over a period of time. With the approval of United's plan for United Telephone Company of the Carolinas only, the Commission does not see the need at this time to establish an

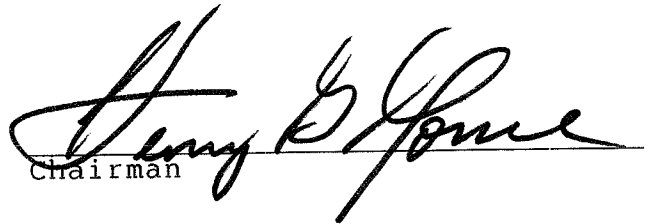
industry task force to develop a plan to reduce United's revenue residual. However, the Commission does not discourage the LECs and the interexchange carriers formulating a plan to further address the access charge question at any point in time.

5. The Commission has considered the proposal to eliminate the cap on originating CCLC put forth by Southern Bell. This cap elimination was coupled with an earnings sharing and/or rate rebalancing approach. The Commission has concerns about the proposal put forth by Southern Bell. If the originating access cap was eliminated, and it was coupled with an earnings sharing or rate rebalancing scenario, Southern Bell would have to achieve additional earnings above 14% before any access reductions could be even attempted. That, of course, would involve using the ratepayers portion of the additional earnings as testified to by witness Hendrix. The Commission is troubled by that proposal for two reasons. One, the Company may not achieve additional earnings over 14% and, two, the Commission has not made a determination as to how to handle the additional earnings above the threshold level. Also, using the rate rebalancing approach, a rate increase to some service or services provided by the Company would be necessary. The Commission is concerned that the proposal put forth by Southern Bell does not provide enough detail for the Commission to approve at this time and could have unforeseen rate consequences. Therefore, the Commission will not approve the proposal put forth by Southern Bell, but will, because no other proposal was forthcoming, maintain the current originating Carrier Common Line

Cap for Southern Bell under the same terms and conditions as approved by the Commission in Order No. 89-281, issued in Docket No. 88-472-C, and subsequently addressed in Order No. 91-1156 in the same Docket.

6. For the plans approved herein by the Commission of the SCTC, United and GTE South and Contel, the implementation of such shall commence January 1, 1993.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)